



JOHN CHIANG
California State Controller

October 1, 2012

K-12 Local Education Agencies (School Districts, County Offices of Education, and Charter Schools), Joint Powers Entities, and Certified Public Accountants Performing Audits of California K-12 Local Education Agencies

Re: Annual Audits for Fiscal Year 2011-12

This advisory provides information to assist independent auditors in performing the fiscal year 2011-12 audits of Local Education Agencies (LEAs) and joint powers entities.

K-12 LEA WEB PAGE

The California State Controller's Office (SCO) K-12 LEA web page is located at: http://www.sco.ca.gov/aud_k12_lea.html. This audit advisory as well as general guidelines for audits of K-12 LEAs are available on this internet site.

NEW FOR FISCAL YEAR 2011-12

1. Fiscal year (FY) 2011-12 audit reports must be filed with the SCO, California Department of Education (CDE), local County Superintendent of Schools, and, if applicable, the chartering entity, by December 17, 2012. Independent auditors must submit to the SCO one copy of the report either by U.S. Postal Service, private carrier, or via File Transfer Protocol (FTP). If you plan to use the FTP option and do not have the instructions, please contact the SCO to request the FTP instructions at leaaudits@sco.ca.gov or leave a voicemail message at (916) 324-6442. Due to security protocol, the SCO cannot provide FTP instruction packets containing username and password by email or by phone. When requesting an instruction packet, please include the following: firm name, contact person, mailing address, and phone number.

Mailing Address

State Controller's Office
Division of Audits
School District Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Private Carrier Delivery

State Controller's Office
Division of Audits
School District Audits
3301 "C" Street, Suite 700
Sacramento, CA 95816

2. The SCO has identified an issue with the time stamp of files uploaded via FTP for individuals using Windows Explorer on Windows 7 computers. Windows 7 users in the Pacific Time zone will see that the time stamp for their submitted files appears as 8 hours ahead during Pacific Standard Time and 7 hours ahead during Pacific Daylight Time. The reason for this is that Windows 7 uses Greenwich Mean Time.

There is no known fix for this issue, so the SCO will recognize the time difference for Windows 7 users. Screen shots of uploaded files may be used for confirmation and are valid for any submission disputes. In order to see accurate time stamps when using Windows 7, it is recommended that you use an FTP client, such as "Filezilla."

3. The following changes, which consist of new compliance requirements or a change in the number of procedures for existing compliance requirements, were added to the K-12 Audit Guide for FY 2011-12:

**Article 3. State Compliance Procedures: Local Education Agencies
Other Than Charter Schools**

§ 19817. 2. Attendance Reporting: 6 procedures

§ 19817. 5. Teacher Certifications and Misassignments: 3 procedures

§ 19824.1. Instructional Time (2011-12): 6 procedures for school districts; 3 procedures for county offices of education

§ 19840. Juvenile Court Schools: 8 procedures

§ 19841. Exclusion of Pupils – Pertussis Immunization: 2 procedures

Please note that these procedures will not be required in the K-12 Audit Guide for FY 2012-13.

Article 3.1. State Compliance Procedures: School Districts and Charter Schools

§ 19846.1. After School Education and Safety Program: 4 procedures for general requirements; 5 procedures for after school; 6 procedures for before school

Article 4. State Compliance Procedures: Charter Schools

§ 19850. Contemporaneous Records of Attendance: 3 procedures

§19851.1. Mode of Instruction (2011-12): 1 procedure

§ 19854.1. Annual Instructional Minutes - Classroom Based (2011-12): 4 procedures

4. The following Statements on Auditing Standards (SAS) issued by the Auditing Standards Board are effective for audits of financial statements for periods beginning on or after December 15, 2010:

- SAS No. 118, Other Information in Documents Containing Audited Financial Statements
- SAS No. 119, Supplementary Information in Relation to the Financial Statements as a Whole
- SAS No. 120, Required Supplementary Information

Auditors should consider how the new statements impact their audit reports for fiscal year 2011-12 and revise their reports accordingly.

5. The California Department of Education is accepting only electronic versions of the FY 2011-12 audit reports. For instructions on how to submit the annual audit report to the CDE, please visit the CDE's web page at <http://www.cde.ca.gov/fg/au/ag/submitaudittrpt.asp>

K-12 AUDIT GUIDE

The K-12 Audit Guide is published by the Education Audit Appeals Panel (EAAP) pursuant to rulemaking procedures. The title of the K-12 Audit Guide for fiscal year 2011-12 is *Standards and Procedures for Audits of California K-12 Local Education Agencies 2011-12*. The K-12 Audit Guide is prescribed in 5 CCR, section 19810, et seq. It is available through the EAAP's website at www.eaap.ca.gov.

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

The ARRA imposes transparency and accountability requirements on federal awarding agencies and their recipients.

1. **Schedule of Expenditures of Federal Awards (SEFA)** - Expenditures for federal awards under the ARRA must be separately identified in the schedule as a separate row by Catalog of Federal Domestic Assistance (CFDA) number, and inclusion of the prefix "ARRA" in identifying the name of the federal program. If ARRA funding is received by a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity must be included.
2. **Effect of Expenditures of ARRA Awards on Major Programs**
 - a. **Type A programs (Student Financial Assistance [SFA] Excluded)** - Any program or cluster with expenditures of ARRA awards would not qualify as low-risk Type A. However, the auditor may consider a Type A program or cluster to be low-risk if **all** of the following conditions are met:
 - The program or cluster had ARRA expenditures in the prior period;
 - The program or cluster was audited as a major program in the prior audit period;

- The ARRA expenditures in the current audit period are less than 20% of the total program or cluster expenditures; and
 - The auditor has followed section .520(c) and section .525 of Office of Management and Budget (OMB) Circular A-133 and determined that the program or cluster is otherwise low-risk.
- b. **Type B Programs (SFA Excluded)** - The auditor should consider all Type B programs and clusters with expenditures of ARRA awards to be programs of higher risk in accordance with section .525(d) of OMB Circular A-133.
- c. Audit findings involving ARRA federal award programs must be separately identified and presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E – Auditors, section .510.

REPORT CERTIFICATION COMPLIANCE REMINDERS

During the SCO's annual audit report certification process, a significant amount of time is spent corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2011-12, the SCO requests that auditors attend to the following when completing their audit reports. Failure to comply with these requirements will result in audit reports being rejected.

1. **Management Letter:** If the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* refers to a management letter, then a copy of the letter must be submitted with the LEA's annual audit report.

In addition, the management letter should not include attendance or state program compliance findings or federal compliance findings.

2. **State Compliance Findings:** The financial impact of state compliance findings must be quantified. The K-12 Audit Guide includes specific information that must be included in each finding. For example, for attendance findings, the K-12 Audit Guide requires that the audit report include a statement of the number of units of ADA that were inappropriately reported for apportionment and an estimate of their dollar value. If there is no financial impact, the finding must describe the reasons for the auditor's conclusion.

The stated criteria should refer to a California state law or regulation that governs the program. It is not appropriate to cite the K-12 Audit Guide, *Standards and Procedures for Audits of California K-12 Local Educational Agencies* as the criteria.

3. **Federal Compliance Findings:** For single audits, federal compliance findings must be presented in accordance with the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, subpart E–Auditors, section .510.

If a finding includes multiple programs, including ARRA programs, the finding should identify each program by Catalog of Federal Domestic Assistance (CFDA) title and number and that name of the applicable pass-through entity (including ARRA identification if applicable), and should provide questioned costs for each program.

4. **Schedule of Average Daily Attendance (ADA):** If there are any ADA adjustments due to audit findings, the schedule must display additional columns for the Second Period and Annual Reports reflecting the final average daily attendance after audit finding adjustments, as required by Section 19816(j) of the K-12 Audit Guide.

The schedule of ADA for charter schools must display total ADA and ADA that is generated through classroom-based instruction by grade level. For LEAs that include one or more charter schools in their financial statements, total ADA and classroom-based ADA for each charter school must be presented.

5. **Schedule of Instructional Time – Sponsoring Entity (school district or county office of education) with Charter (s):** When a charter school(s) is included in the sponsoring entity's audit report, a separate Schedule of Instructional Time for each classroom-based charter school must be included in the supplementary information section of the audit report. This schedule is required by Section 19854.1(d) of the K-12 Audit Guide.
6. **Elements of Audit Findings:** Each audit finding should be presented in the level of detail described in the Summary of Audit Report Components, located on the SCO K-12 LEA web page.
7. **School Accountability Report Card (SARC):** Audit procedures for this program are required to be performed for school districts and county offices of education. If the current year SARC document has not been completed, the auditor must review the SARC document for the prior fiscal year.

If you have any questions or need additional information, please contact Carolyn Baez, Chief, Financial Audits Bureau, Division of Audits, by telephone at (916) 324-6442 or by email at leaaudits@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, Chief
Division of Audits
State Controller's Office

Attachment

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Certified Public Accountants and Their Auditees
October 1, 2012
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cc: Tom Torlakson
Superintendent
California Department of Education